

PX 169

March 9, 2016

@schiffhardin.com

[REDACTED] Esq.
Counsel
Capital Markets Division
New York State Department of
Financial Services
One State Street
New York, NY 10004-1511

Re: XRP II, LLC

Dear Al:

This is in response to your letter of February 12, 2016 to Ryan Zagone. Previously, on February 26, 2016, I sent you a partial response by email (copy attached).

The following responses are in the order of your February 12, 2016 inquiries:

A. Breakdown of revenue:

A monthly breakdown of revenue for August 2013 through December 2015 is included in Attachment "1". Note that XRP II, LLC became commercially active in August 2013.

An upgrade to the reconciliation and accounting systems of Ripple Labs, Inc. ("Ripple"), XRP II's parent, resulted in a reallocation of revenue for 2015. The restated historical financial statements for XRP II are included in Attachment "2".

B. Details of accounts receivable:

The 2014 accounts receivable represents outstanding payments due from customers' agreements (primarily GSR) to purchase XRP. Payments were collected in 2015. The accounts receivable stated in 2015 also are primarily attributable to GSR and will be fully collected in 2016.

C. Details of intercompany revenue:

XRP II's parent company Ripple implemented a new financial system in 2015 allowing for better tracking of revenue and expenses across subsidiaries. Updated historical financials for XRP II are included in Attachment #2. The updated profit and loss statement for XRP II includes a line item for intercompany cost of revenue. This item reflects the compensation that XRP II makes to its parent company Ripple in exchange for the digital asset (XRP) that

[REDACTED] Esq.

March 9, 2016

Page 2

will be sold to XRP II's customers. For accounting purposes, XRP II compensates the parent company for the supply of XRP.

D. Details of the amount of digital currency held by XRP II:

As of 18 February 2016, XRP II held [REDACTED] of the digital asset XRP for itself and [REDACTED] of the digital asset XRP on behalf of others.

XRP II and Ripple consider XRP a digital asset, not a currency. XRP is used within Ripple as a security mechanism and a liquidity tool. XRP is not intended to be used as a currency.

E. Provide additional information and details regarding the nature of XRP II's relationship with [REDACTED] and the sale of XRP to and by [REDACTED]

F. Details of the outstanding custodial balance for [REDACTED]

[REDACTED] is an inactive customer of XRP II. XRP II has sold XRP to [REDACTED] in the past (but not in the previous six months) and currently holds [REDACTED] XRP on [REDACTED] behalf. The XRP held on [REDACTED] behalf is done out of convenience to and at [REDACTED] request. These holdings are not part of XRP II's custody business.

XRP II has a custody arrangement for the XRP Master Fund. (See Attachment 19 of the original application.) XRP Master Fund is currently going through XRP II's onboarding process. To date, XRP II has neither sold any XRP to, nor custodied any XRP for, XRP Master Fund. No sales or custody of XRP will occur to XRP Master Fund until the XRP Master Fund has completed XRP II's onboarding process.

XRP Master Fund and [REDACTED] are separate entities although they share the same ultimate beneficial owner, as explained in Attachment #3 - XRP II's Active Counterparty List. The structure of XRP Master Fund and its relationship with [REDACTED] has evolved since the initial application was submitted to NYS DFS. Attachment 20 of XRP II's initial application included a Memorandum of Understanding between XRP II and [REDACTED] regarding a custody arrangement of a then titled "XRP Fund." Today, the fund is referred to as XRP Master Fund and is a separate entity from [REDACTED] although both XRP Master Fund and [REDACTED] share the same ultimate beneficial owner.

G. Details of monthly XRP sales:

A monthly breakdown of revenue for August 2013 through December 2015 is included in Attachment #1. XRP II became active in August 2013.

An upgrade to the reconciliation and accounting system of XRP II's parent Ripple resulted in a reallocation of revenue over the months of 2015.

[REDACTED] Esq.

March 9, 2016

Page 3

H. Details of any GSR Loan Agreement activity for 2015:

GSR has continued to make draws under its loan agreement and has repaid these draws throughout 2015. As of year end 2015 there was approximately [REDACTED] XRP advanced under the loan agreement to GSR.

I. Customer List for XRP II LLC:

Please see Attachment #3 for a list of active XRP II counterparties (those that have transacted in the last six months) as of February 2016. This was provided previously.

AML Program

Anti-Money Laundering Compliance Program:

1. Approval of XRP II's AML Program

As detailed in the Compliance Oversight Committee Charter provided in December 2015, XRP II's BSA/AML/OFAC Program is reviewed and approved by the Compliance Oversight Committee (this occurred on December 1, 2015). Committee approval is then reported to the Ripple Board of Directors (this occurred at the December 10, 2015 Ripple Board meeting).

2. Clarification on reporting lines:

Antoinette O'Gorman is the BSA Officer and Chief Compliance Officer of XRP II and Ripple. Ms. O'Gorman has an independent, dotted reporting line to the Board of Directors of Ripple.

Prior to February 29, 2016, Ms. O'Gorman reported directly to Ripple's President/Chief Operating Officer on a day-to-day basis. Following a discussion between XRP II leadership and the New York State Department of Financial Services on February 19, 2016, XRP II made revisions to Ms. O'Gorman's reporting structure. Effective February 29, 2016, Ms. O'Gorman reports directly to Ripple's Chief Executive Officer.

Ms. O'Gorman's independent, dotted reporting line to the Ripple Board of Directors is unchanged. Ms. O'Gorman's role as Chair of the BSA Compliance Oversight Committee is unchanged. See Attachment #4 for an updated compliance reporting structure. XRP II's legal structure, also included in Attachment #4, remains unchanged from XRP II's initial application.

3. Risk Assessment

See Attachment #5 for XRP II's annual revised risk assessment, which was reviewed and approved by the Compliance Oversight Committee on February 16, 2016. Committee approval was reported to the Ripple Board of Directors at the February 23, 2016 Board meeting.

March 9, 2016

Page 4

4. SAR filing deadline:

This is correct and is so reflected in XRP II's Investigations Procedures, included as Attachment #6.

Additional Information

1. Bank Letter

A letter from the Chief Compliance Officer of [REDACTED] is included as Attachment #7.

2. Calculating the Value of XRP

a) Market Price

XRP is traded on both public exchanges and between buyers and sellers in the private market. XRP's fair market value can be estimated by directly observing the traded market price for the asset.

The traded market price is determined by the buyers and sellers transacting in XRP. XRP II references the current market price for XRP when valuing the asset for a sale. As the Ripple Protocol operates 24/7/365, the current market price for XRP is available at any time.

b) Considering Traditional Valuation Methods

The applicant has considered traditional valuation approaches for XRP, other than reference to the current market value.

The appraisal profession generally recognizes three primary approaches to determine value: the income approach, the market approach, and the asset approach. Each approach is distinctive and dependent on the specific facts of each circumstance.

Valuation methods under the *income approach* value an asset with reference to various measures of the earnings or cash flows generated by that asset, with the assumption that such earnings or cash flows sooner or later will be paid out to the owners of the asset. This method may not apply, as XRP does not offer earnings or future cash flows.

Valuation methods under the *market approach* value an asset by comparison with transactions in similar assets. Given XRP's unique characteristics and use case, a comparison to similar assets is not feasible.

Valuation methods under the *asset or cost approach* value an asset at the stated worth of the asset, or the cost to recreate the asset. 100 billion XRP were initially created and no additional XRP can be created per the protocol; thus this valuation method is not applicable.

[REDACTED] Esq.

March 9, 2016

Page 5

Given the unique characteristics of XRP, the applicant determined that traditional income, market, and asset approaches were neither applicable nor reliable methods of determining value. Referencing the current market price was determined to be the preferred method of valuation .

c) **Supply of XRP**

While buyers and sellers determine the market price of XRP, the supply of XRP is an important variable to consider when valuing the asset.

Ripple holds approximately 66 billion of the 100 billion XRP. Ripple's distribution strategy, including the timing, volume and pace of distribution, will impact the supply and ultimately value of XRP. Ripple has distributed approximately 34 billion XRP as of January 31, 2016.

Ripple aims to distribute XRP in a way that supports a stable or strengthening value of XRP. Ripple expects to see an increase in demand for XRP that more than offsets the additional supply that is injected into the market via sales of the digital asset.

Ripple is fully transparent about its holdings, use cases for, and distributions of XRP. Such information is available at the following website and is typically updated monthly: <https://ripple.com/xrp-portal/>.

On behalf of XRP II, I hope the foregoing is sufficient for your inquiries.

[REDACTED]

DC81459735.1